

Robert Hare,

Proofs that Credit as Money  
is Preferable to Coin.

HG593  
.H27









**PROOFS**

THAT

**CREDIT AS MONEY,**

IN A

**TRULY FREE COUNTRY,**

IS TO A

**GREAT EXTENT**

**PREFERABLE TO COIN.**

**BY ROBERT HARE, M. D.**

Professor, &c. &c.

ABSTRACTED FROM A PAMPHLET PUBLISHED IN 1810, AND REVISED,  
BY THE AUTHOR.

—•••••—  
**Philadelphia :**

**PRINTED BY JOHN C. CLARK,**

No. 60, Dock Street.

1834.

HG593  
H27

22480

## PREFACE.

---

It is well known that the vocation of the author, and his predominant taste for the cultivation of science, are irreconcilable with political life. This circumstance, and the fact that the opinions supported in this pamphlet were first published more than twenty years ago, to obviate financial objections to the creation of a navy, must render it evident that they originate neither in the desire of office, in bank influence, nor in party spirit. In truth the sentiments with which the opinions in question were originally associated, were too independent, to be relished by either of the prevailing parties; and hence, although approved of by some distinguished men, they had only a limited circulation.



The following Essay is intended to prove,

That Credit is an original medium of commercial interchange, constituting in fact a species of money.

That "paper credit" has been erroneously considered as the representative of gold and silver money, although those metals as the only satisfactory and accessible test of paper money, are to a certain extent necessary to give it currency.

That while it is true that in this respect, and in some others, gold and silver may perform services to which credit is incompetent, it is equally demonstrable that credit may avail under circumstances, in which the precious metals may either be incompetent, or unattainable.

That credit is especially the money of the *honest and industrious*, whether *mechanics, traders, or cultivators of the soil*.

*That Banks give an extension to the credit of men of small capital*, which enables them to deal with persons to whom their credit would be unknown, and thus to acquire the means of employing the labouring class.

That as state banks are useful in performing services to which the credit of individuals is incompetent, so a national bank is advantageous in reaching cases to which, state banks are incompetent.

That banks are useful in supplying a more convenient, and less expensive currency than coin.

That credit not only enables the capital of one part of our country, to promote the industry and improvement of other parts, it also enables us by the sale of bank shares, or certificates of state, or national, debt in foreign countries, to enrich our country by all the difference between the profits of the capital thus obtained, and the interest paid to the foreign stockholders.

That the blessings arising from the great mean of public prosperity, which forms the subject of this essay, are dependant on the competency, supremacy, and stability of the laws.

That in this respect the employment of credit as a mean of commercial interchange, has a happy influence in associating the pecuniary interest of the great mass of the community, with the cause of good morals, public order, and true liberty.



# ESSAY ON CREDIT,

## AS MONEY.



The following is conceived to be a simple, and obvious illustration of the primitive operation of credit, as a mean of commercial interchange. A raw material, being sold on credit, in lieu of remaining idle in the hands of the farmer, becomes in those of the manufacturer, an useful article; and he is enabled to return to the farmer a better price, and to furnish merchants or consumers, a supply larger and cheaper than he could have afforded without the assistance of his credit. In like manner the merchant or manufacturer, may advance to farmers articles necessary for consumption, or implements serviceable in agriculture; which otherwise had, for a time at least, remained unproductive of interest or profit, notwithstanding the detriment resulting to cultivators from the want of them.

In the negotiations thus cited, each individual buys through the medium of his credit, and the several persons concerned, may have current accounts with each other, without any recurrence to coin, unless as the received standard of value. In this case therefore, the employment of credit, supersedes that of gold and silver, or any other substantial medium of interchange; and it may be considered as performing the office of such a medium, in a limited degree.

It is also apparent from this familiar illustration, that the same quantity of land, labour, or capital stock, may be rendered much more productive with credit, than without it. The excess of benefit thus gained, is fairly attributable to credit; and hence credit under all its productive forms, should be comprised in any estimate of wealth. For as land, labour, and capital stock, are solely valuable on account of their actual, or probable efficiency, credit, so far as it increases this efficiency, must have equal pretensions to value.

Under a strict system of law, where the payment of debts is rigorously enforced, credit, in its simple and primitive form, so far as it answers the purpose of a medium of interchange, is preferable to money. The man who enjoys the one, has nearly an equal facility with him, who commands the other, in the purchase of merchandise, or materials for manufacture. But the stimulus to industry, or exertion, is very different in the two cases. The mechanic who has an hundred dollars, can live without work so long as it lasts. He may spend the whole, or a part, in his pleasures, or for his sustenance, and



may work proportionably less. But the mechanic who can command credit to the amount of an hundred dollars, has nearly the same capacity to earn money, as the other; but his privilege will not sustain him in idleness, or dissipation. It can only be of use to him, through his skill and industry; unless he be so wicked as to become a swindler, and is permitted by the law to swindle with impunity.

It may however be demanded, wherefore should not the money obtained through the medium of industry and credit, equally facilitate idleness or debauchery, as the same amount, when originally possessed. The answer is, that before any one can by such means earn a large sum, his habits must receive a permanent bias, favourable to economy and exertion. Experience shows, that the money obtained by inheritance or by fortuitous events, is very often squandered; while that which has been procured by toil and care, is most frequently employed, or disbursed, with prudence or frugality.

The facility given to knaves and idlers, in their exactions from the honest and industrious, is the greatest evil of credit: an evil which can only be diminished by the most rigorous punishment of debtors, who by an obvious misapplication of the property which they borrow, prove themselves to be wanting in honesty. The rigid enforcement of penalties against all who thus live upon the public, would tend to throw all the efficient power of credit into the hands of those who would make an honest use of it, who do not borrow, without a fair prospect of profit, and are necessarily industrious, that they may guard against the evils of failure.

This digression has been made, in order to show, that those ill consequences which at first sight appear to be the unavoidable concomitant of the prevalence of credit, in a great measure result from defects in the nature or execution of the laws; and that if these were better, and more rigorously executed, the abuse of credit, would more rarely occur.

In fact there are no other means by which the advantages of capital, can be diffused permanently throughout any nation. For were such a diffusion to be attempted, by a judicious donation of gold and silver to every one who would employ the power which they confer, both profitably for himself, and advantageously for the public; although the immediate effects would be highly beneficial, in a few years extravagance, idleness, or folly, on the one part—and economy, industry, and prudence, on the other, would cause the great mass of capital, to be accumulated into the coffers of a minority.

The manufacturing or trading stock, which had been preserved by the care, or exertion of the father, would in many cases be dissipated through the sloth or extravagance of the son;—and the frugal and industrious son, would as often be deprived by the indolent or extravagant father, of that command of capital, which had been conferred by his ancestors.—But credit being in great measure created by industry, skill, and integrity; the possessor of them, in every well regulated society, will have a greater or less command of such portions of the general stock or capital, as he can employ to so much greater advantage than the possessors, as to afford them adequate compensation for the loan of it. It is of course requisite that his pretensions to credit should be known to those, who may have the particular articles which it may be his interest to borrow, and their interest to



lend. This last requisite however, in the ordinary course of affairs must be frequently wanting. However great the credit of a man with those who are acquainted with him, the number who may have this acquaintance, must always be limited; and very often among this number, that unemployed capital will not be found, which it may be his interest to procure. Hence to give a more general efficiency to the credit of individuals, banking institutions are established; which by the notoriety of their wealth and punctuality, obtain general credit; and by their extensive means of information, are enabled to estimate the degree of confidence to which traders may be entitled. The traders become responsible to the bank, and the bank to the community, on receiving a compensation for the accommodation afforded, in giving a general efficiency to the credit of those, who otherwise could exercise it only within a sphere comparatively narrow.

It must be sufficiently plain from the premises, that those who are endowed with mercantile credit, enjoy a valuable qualification or privilege in trade, when compared with those who have not this endowment. But it often happens that those who are in the latter predicament are so situated, that they could employ credit to advantage; while those who can command it, have no direct opening for its employment. It is not then surprising, that some mode should have been devised, by which the credit of the one, should be made efficient in the hands of the other. This has been effected by various instruments of writing, by which any individual, company, or nation, can transfer for a certain time, any portion of that credit, which they cannot directly employ.

The various papers, thus endowed with transferable credit, have been designated by the generic term, paper credit. This, as I have before observed, has been deemed the mere representative, or substitute, of gold and silver money; but from the preceding inquiry, it does not appear that this supposition is warranted, since it has been shown, that the principle to which the paper is indebted for its activity, may exist, or spontaneously originate, under circumstances, in which the precious metals do not exist, and cannot originate.

Transferable credit may be no less current than coin, as in the case of bank checks or notes; or it may have a limited and sluggish currency, as in the case of mercantile notes, or bonds, bills, or certificates of stock.

In the case where it passes current, it answers the purpose of coin in circulation. In the case where it has only a limited currency, it takes the place of hoarded treasure.

In either of the forms just delineated, or that more simple and primitive form at first described, credit *virtually* constitutes a portion of commercial capital. It may be said to be the offspring of capital. This is not denied, so far as capital inspires confidence: but in this respect, it only acts in common with all other sources of confidence. In fact capital is not always productive of credit; and the latter often arises without it. We sometimes trust the poor honest man, in preference to the wealthy rogue: and in a poor community, where morality is strict, and the laws rigid, more credit will be in operation, than in a rich community, *where vice prevails, and the laws are inefficient.*



But although credit may exist, it can have no efficiency without capital. It avails little that people are satisfied of the credit of a dealer, if they have no capital to lend. Credit is therefore an accelerating cause, not a primary source of wealth: and its efficiency is regulated by the state of morality, the wisdom and certainty of the laws, the amount of capital, and the field for its operation. It is not, however, limited by the quantity of capital within the nation, when there exists a free intercourse with other nations, where it abounds in greater proportion to the field for employment.

*In this we see the immense importance of fair dealing with foreigners, and of affording them the greatest legal facilities in the recovery of their debts. Should the foreign purchasers of our bank, or national stock, be at any time subjected to loss by the want of legislative steadiness, or support; it will cause an injurious diminution in the efficiency of our commercial credit, by limiting or reducing the amount of capital, by which this credit is regulated.*

It has already been shown that among individuals, credit as a medium of commercial interchange, has a more beneficial operation than money, in this important point: that the latter may be applied to the support of idleness or pleasure, whereas the former can only be productive through the medium of industry, and of course will incite the possessor to be industrious; unless he be willing by employing it dishonestly, to incur the evils of legal punishment, of lost character, and of lost credit.

Among nations, in a mode in some degree similar, credit as a medium of commercial interchange, has the advantage, when compared with gold and silver money.

The nation which abounds pre-eminently with those metals, will not be industrious; but will buy of her neighbours, until her share be reduced nearly to the general level. It is well known, that such a superabundance destroyed the industry of Spain.\* If the abundance should increase throughout the world, coin would be rendered less convenient by bearing less value in proportion to its bulk; but its efficiency would not be increased. The effect of such a depreciation is demonstrated in Hume's Essay on Money.

The nation on the contrary, possessing credit as a medium of commercial interchange, has that, which can only be of service, in affording facilities to domestic exertion: and the more it abounds, the more are these facilities augmented.

It has been observed that the aggregate of national capital, is not increased by paper credit; because if it forms an article on the credit side of the accounts of one man, it forms an equal debit on the contrary side of the accounts of another.† But I answer, that although the nominal aggregate of the commercial capital be not increased, the efficiency of the whole, and consequently the real value is increased; and that in estimating his capacity to grow rich, each individual may with propriety inquire, not only how much property he has, and can employ profitably, but how much he can borrow,

\* See Montesquieu de L'Esprit des Loix; Tome 2d, page 258.

† See Thornton's Inquiry.



and employ profitably; and that a greater power in the one respect, may balance a lesser possession in the other.

Hence in a country where there are many individuals, who possess this power to borrow, and to employ profitably; there will virtually be more wealth than in a country where there are few such individuals; although the quantity of substantial capital, and the field of profitable employment, should be equally great. The prevalence of paper credit, demonstrates at once the existence and the activity of this power to borrow, and profitably to employ; and it should of course be taken into consideration in any comparative estimate of the wealth of any two communities. For, though a portion of the active credit in every community, will be employed to facilitate useless, fraudulent, or losing transactions; yet, the general and permanent employment of it, is a sufficient proof that the aggregate benefit much exceeds the aggregate evil. It is by the excess of the former, over the latter, that we must rate the value of credit; as we compute the profits of stock, from the balance of profit and loss. It is not an objection to the value of credit, that it is partially productive of loss, or of fraud. Substantial capital is often employed to the detriment of the owner, and of the community; but this does not deprive capital in the aggregate of a value, proportioned to its average profit.

If the trade of one nation be carried on by credit, and that of another be carried on by coin, there is no less reason for attaching value to credit in the first instance, than for attaching it to coin in the last.

*Any great extension or diffusion of the advantages of credit, demands a high degree of security from internal disturbance, or external dangers; and an improved state of trade, law, and morality.\** Now, when a nation from superiority in these advantages, is enabled to perform with credit, not only the greater part of those operations which other nations perform with coin; but to enjoy from the activity of this invisible principle of wealth, a diffusion of the advantages of capital, and many well known conveniences or facilities which the precious metals cannot afford; she is obviously justified in taking this principle of wealth in all its active forms, into any computation of comparative resources. For absurd as it would be to estimate debts in themselves under any form, as a portion of wealth, they ought nevertheless to be computed as so many demonstrations of the beneficial activity of that credit, which in efficiency is proved to be more than equivalent to gold.

The difficulty attendant on the conception that paper credit should be comprised in an estimate of national capital, arises from the notion, that the debt itself is the object of valuation; whereas the real object of valuation, is the principle by which the debt is enabled to

\* The simple fact, that any important part of the machinery by which paper credit is supported, is made subordinate to the opinions of an individual, proves to be sufficient to impair its efficacy. It has been alleged, that a system which is so dependent upon contingencies, must be objectionable; but I deem it advantageous that our prosperity should be of a nature so inconsistent with arbitrary power, that no violation of the laws can take place, without affecting the welfare of the great mass of the community.

Under such circumstances, the multitude are made to feel a change, which otherwise not being generally perceived, might be less efficiently resisted.



exist: and the latter is only computed, as the measure of the activity of this principle. Hence, it is not an objection, that the paper is at some period to be redeemed. The extinction of a note, is not attended by an extinction of the principle to which it is indebted for existence; and accordingly a new note may be created like a phoenix, differing in substance, but possessing the same principle of vitality.

An objection to credit as a medium of interchange, may be founded on its liability to depreciation in moments of alarm, arising from anarchy or invasion. This must undoubtedly at such periods, cause great embarrassment in trade; and much loss to individuals who hold large sums in paper, or transferable credit. But it is to be recollected, that the cost of credit originally is but little to the community at large. Hence, although it should be annihilated, there would arise no great national loss; unless in the temporary diminution of profit, resulting from the stagnation of trade. But this stagnation in moments of national danger, would in great measure ensue, although gold and silver should be the medium employed; and at all events, the nation is gainer by all the wealth, which may have accrued during the intervening efficiency of credit. Should invasion actually take place, this depreciation may cause an eventual saving: as instead of specie, the plunderer would find both the private and public coffers filled with paper, no longer endowed with the principle, to which it had owed its value.

The retreat of the invaders, might be followed by a restoration of credit; but not by a restitution of the gold and silver, or other substantial and moveable property, of which temporary success might have given them the command.

The very active currency of bank checks and notes, is due to their superiority over gold and silver money, in conveniency of form, weight and bulk; and to the management of the banks; who, by keeping a sum always ready to answer demands, in a great measure prevent them, and thus extend, and confirm the general confidence in their credit. In this case the expense of giving currency to credit, is measured by the interest of the sum kept unemployed in their vaults.\*

Bonds, bills, notes, bank stock, or national certificates, owe their more sluggish currency, to the payment of that interest, discount, or dividend, which renders it desirable or satisfactory to many individuals, to keep them in preference to money; as they afford equal security against eventual want, and are productive of a revenue to the holder.

\* Agreeably to the statement made in Mr. Binney's excellent speech, the amount of debts, paid through domestic bills of exchange by the Bank of the United States in one year, was more than two hundred and forty millions of dollars; which, at one dollar and 20 cents per ounce, would in weight amount to twelve millions five hundred thousand pounds. If to this aggregate were added all payments otherwise made, what an addition to the labour of man and beast would ensue, if the same office were performed by silver. It must be admitted, that the employment of gold would be much less onerous.

It would, however, be impracticable, unless the advocates of a metallic currency could have sufficient influence with the genius of Aladdin's Lamp, to procure copious golden showers; and could afterwards induce our population to wear out their pockets in using gold, instead of exchanging it for the produce of foreign labour, consequently rendered cheaper in comparison with domestic products.



The amount of specie necessarily kept by the banks, to answer demands, being very small compared with the amount of their paper in circulation; the expense of supporting the currency of bank notes or checks, is inconsiderable. That incurred in supporting the currency of the national certificates, is balanced by a proper application of the fund created by the sale of them.

The precious metals comprise many qualifications indispensable in an efficient circulating medium, and which are collectively found in no other substances. Hence so far as they are not superseded by credit, commercial nations are universally necessitated to employ them, as the medium of interchange.

When not among the productions of a country, the gold and silver required for this purpose, can only be purchased by an equivalent amount in the productions of agriculture or art; and when these metals are among the productions of a country, they are rarely to be procured without a degree of labour and expense, nearly equal to their value.

But unless we subtract the comparatively trifling expense, of the banks, and loan offices; or that incurred as above stated in supporting the currency of the national certificates, or the bank paper; transferable credit under either of these forms, constitutes a medium of interchange, created without expenditure of labour, or advance of capital; and may be created when that command of labour and capital, which would be requisite to purchase any substitute, may be totally out of the power of the nation. This inference is not hypothetical. Three-fourths of the capital of the old national bank originally consisted of national debt; yet upon this basis, was the credit founded, which enabled that institution effectively to yield to the trade of the United States, sixteen millions of dollars.

When the government, with the funds borrowed from foreigners, purchases produce of the farmer or landholder, for defence or improvement; the nation in the first place gains by the excess of the advantage resulting annually from the improvement or defence, over the interest paid to the foreign creditor; and in the second place, by the superior efficiency of the property borrowed, over that which is consumed; or by the advantage of exchanging those raw materials of which we have a superabundance, for articles of which we are greatly in want.

*Nearly similar are the advantages which are derived from the sale of our bank stock in foreign countries. For though the proceeds of the sale go into the coffers of the banks, the means of the nation are equally increased; as it enables the banks to make greater advances, either to the government, or to individuals.*

At the establishment of every bank, the public may with propriety claim a portion of the stock, sufficient to prevent that rise in value, which causes to the projectors a gain, quite disproportionate to their industry, or the capital which they invest. This would prevent the injurious multiplication of these institutions, and would constitute a fair source of revenue; but it would be unjust and impolitic to tax, and thus to depreciate bank stock, in the hands of those who may have bought it after the rise has taken place.

Liability to this species of taxation will always render our stocks



less saleable abroad. Foreign stockholders will not be willing to share our burthens, incurred for objects by which they cannot be benefited.

Enough has been said to demonstrate, that the poorer classes of society are great gainers, if the capital obtained from wealthy citizens, or foreigners through the public or bank credit, be employed in the execution of designs worthy of its value. In any event, the poorer classes can have no reason to complain, as they can never be called upon to pay more than that annual interest, which is so trifling when compared with the annual advantage, if the capital obtained by it, be invested in objects permanently beneficial. *I say permanently, because it does not appear correct to employ the means afforded by credit, in defraying the ordinary expenses of government. This would in truth be a robbery of posterity; and in order to avoid a measure so replete with injustice, the public credit should only be resorted to under circumstances, where the permanent character, or prosperity of the nation may be at stake.*

I hope the reader of the preceding pages will concur with me, in concluding, that as a mean of commercial interchange, credit is more serviceable than gold and silver. Since, however, great may be the quantity of these metals in a country, it does not follow that they will reach the hands by which they would be most profitably employed. The command of them, is the exclusive attribute of the wealthy, while the command of credit, is the universal attribute of the honest, the skilful, and industrious. To employ the first as a mean of wealth, requires the previous acquisition of wealth, or in other words, that the effect should in some degree precede the cause. To employ the last, only requires honesty, industry, and skill. Indeed honesty of principle, is not requisite, where the custom of trade, or the rigour of the law, renders a faithful payment of debts the most profitable course. Prone in common with all substantial and hereditary wealth, to subside into channels rather ample than numerous, the precious metals flow through a country in large streams, which carry out as much as they bring in, and contribute more to partial magnificence, than to general fertility: while credit, springing up in innumerable self-created rills, diffuses a fertilizing influence throughout every region.





# Date Due

7/15/51	Di. Jager		
6-8-52	"	"	
6-5-53	"	"	
7-6-54	"	"	
6-16-55	"	"	
6-16-59	"	"	
Ⓢ			

GAYLORD BROS. Inc.  
Syracuse, N. Y.  
Stockton, Calif.



3 9031 01767339 3

22430

BOSTON COLLEGE LIBRARY  
UNIVERSITY HEIGHTS  
CHESTNUT HILL, MASS.

Books may be kept for two weeks and may be renewed for the same period, unless reserved.

Two cents a day is charged for each book kept overtime.

If you cannot find what you want, ask the Librarian who will be glad to help you.

The borrower is responsible for books drawn on his card and for all fines accruing on the same.





